

DEVELOPMENT FUND FOR IRAQ
CASH ACCOUNTABILITY REVIEW:
JOINT AREA SUPPORT GROUP-
CENTRAL

SIGIR-06-008
APRIL 28, 2006

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April 28, 2006

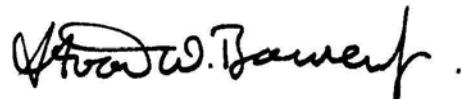
MEMORANDUM FOR COMMANDER, JOINT AREA SUPPORT GROUP-CENTRAL

SUBJECT: Audit Report on Development Fund for Iraq Cash Accountability Review: Joint Area Support Group-Central (SIGIR 06-008)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of Iraq relief and reconstruction programs and operations and to prevent and detect waste, fraud, and abuse.

We considered management comments from the Joint Area Support Group-Central, Multi-National Force-Iraq, on a draft of this report when preparing the final report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Clifton Spruill at (703) 343-9275, or by email at clifton.spruill@iraq.centcom.mil. For the report distribution, see Appendix C.



Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-008

April 28, 2006

Development Fund for Iraq Cash Accountability Review: Joint Area Support Group-Central

Executive Summary

Introduction. This audit report is one of a series of reports addressing controls by U.S. government officials, over cash in Iraq. This audit report discusses the accountability for the Development Fund for Iraq (DFI) cash controlled by the Joint Area Support Group-Central (JASG-C) Comptroller, who also serves as the DFI Account Manager.

The DFI fund was established to meet:

- the humanitarian needs of the Iraqi people
- the economic reconstruction and repair of Iraq's infrastructure
- the continued disarmament of Iraq
- the costs of Iraqi civilian administration
- other purposes benefiting the people of Iraq

Objective. The overall audit objective was to provide assurance that funds on hand agreed with government records. We specifically looked at whether Department of Defense (DoD) policies and procedures for controlling cash and cash expenditures were being followed and whether the procedures were adequate given existing conditions.

Results. We conducted an unannounced cash count on January 31, 2006, and as a result provided assurance that the \$28.5 million funds on hand agreed with government records. The JASG-C Comptroller/DFI Account Manager was accountable for DFI cash assets on hand and complied with the DoD requirements for safeguarding cash, with some exceptions. We found that the processes employed by the JASG-C Comptroller/DFI Account Manager's office were acceptable for completing, controlling, and maintaining accurate records for: (1) cash on hand (Palace Vault), (2) issuance of cash to paying agents in the Central Region, and (3) clearing paying agents' cash account balances.

However, we did note these exceptions during the review:

- There is no file system to store and readily retrieve the paying agent's documents.
- The process for properly identifying the current accountable Disbursing Officer for backup access to the vaulted DFI funds did not follow applicable DoD Financial Management Regulations.
- The mechanical condition of the vault does not allow for the periodic changing of the lock combination in accordance with DoD requirements.

Management Actions. The Commander, JASG-C has taken actions to correct two of the reported deficiencies. Utilizing contracted resources, the JASG-C Comptroller's Office has started scanning the payment agent's payment packages to a database. The expected completion date is May 30, 2006. The database will allow proper filing of the payment packages, and faster retrieval if a payment question is raised. In addition, after we informed the JASG-C Deputy Comptroller of the deficiency relating to signatures on the combination and key envelope, the envelope was updated with the current Disbursing Officer's signature. We commend the Commander, JASG-C and the JASG-C Comptroller for the prompt and thorough actions to correct these deficiencies.

Recommendations. We recommend that the Commander, Joint Area Support Group-Central, require these actions of the JASG-C Comptroller/DFI Account Manager:

- Develop a file system to store and more readily retrieve specific payment packages.
- Ensure that current signatures are affixed to the sealed enveloped containing the safe combination and duplicate key whenever a new Disbursing Officer takes custody of the cash assets.
- Develop a contingency plan for secure and reliable access to the vault and its contents to lower the risk of unauthorized access or in the event of mechanical failure of the combination lock.

Management Comments and Audit Response. The Commander, JASG-C, concurred with all recommendations. Actions have been taken and are underway to implement the recommendations. The comments received are fully responsive.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objective	2
Finding	
Control of the Development Fund for Iraq Cash on Hand	3
Appendices	
A. Scope and Methodology	8
B. Acronyms	9
C. Report Distribution	10
D. Audit Team Members	12
Management Comments	
Commander, Joint Area Support Group-Central	13

Introduction

Background

United Nations Security Council Resolution 1483, dated May 22, 2003, assigned responsibility for managing the Development Fund for Iraq (DFI) to the Coalition Provisional Authority (CPA). Resolution 1483 noted that DFI funds should be disbursed at the direction of the CPA, in consultation with the Iraqi interim administration. It also required that the DFI funds be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. The DFI was the primary financial vehicle to channel revenue from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets to the relief and reconstruction efforts for Iraq.

During the CPA administration of Iraq, the CPA Comptroller managed DFI funds. When the CPA was disestablished in June 2004, responsibility for administering DFI funds shifted to the U.S. Army's Joint Area Support Group-Central (JASG-C). The CPA Comptroller was realigned as the JASG-C Comptroller, and assumed responsibility for cash control of the DFI and continued to perform the same duties for that portion of the DFI still being administered by the U.S. government. On December 24, 2005, the Minister of Finance for the Iraqi government extended the Designation of Authority and Responsibility to the Chief of Mission and the Commander, Multi-National Force-Iraq to administer the DFI-funded contracts and grants to December 31, 2006. As such the JASG-C Comptroller and the Commanding General, Joint Contracting Command – Iraq/Afghanistan maintain their respective responsibilities as the DFI Funds Manager and the DFI Administrator.

CPA Regulation Number 2, "Development Fund for Iraq," dated June 10, 2003, described the responsibilities for the administration, use, accounting, and auditing of the DFI. The regulation was intended to ensure that the DFI was managed in a transparent manner for and on behalf of the Iraqi people, consistent with Resolution 1483, and that all DFI disbursements would be for purposes benefiting the people of Iraq.

The United States used DFI cash funds to help fund the Commanders' Emergency Response Program and the Rapid Regional Response Program. The Commanders' Emergency Response Program enables U.S. military commanders in Iraq to respond to urgent humanitarian relief and reconstruction requirements of the local population by providing funds for repairs and condolence payments after combat operations; providing equipment such as electrical generators to support critical infrastructure, and large scale civic cleanup and construction activities to employ as many Iraqis as possible. The Rapid Regional Response Program was conceived as a civilian equivalent of the Commanders' Emergency Response Program fund intended to create local jobs, support local industries, and stimulate the economy.

Military regulations and guidance provide additional requirements for managing cash funds. Department of Defense Financial Management Regulation Volume 5 establishes disbursing policy principles, standards, responsibilities, procedures, practices, and liability for disbursing officers, certifying officers and accountable officials throughout the Department. The military also issued an instruction entitled, Guidance on the Use of the Development Fund for Iraq In Support of the Commanders' Emergency Response Program, dated August 2003. The guidance applied to all parties involved in receiving,

disbursing, accounting for, securing, and reporting for the DFI. It designates the CPA Comptroller as the DFI Account Manager with the responsibilities of overall financial and program accountability for the use of DFI monies in the Commanders' Emergency Response Program. The CPA Comptroller's responsibilities included accounting and reconciling DFI monies that were used in the Commanders' Emergency Response Fund and appointing Division Level Agents. As noted earlier, the JASG-C Comptroller assumed the role of the DFI Account Manager when the CPA was disestablished.

The JASG-C Comptroller/DFI Account Manager's office is required to maintain an accounting ledger of cash accountability that included evidence of cash issued and receipts returned. The JASG-C Comptroller/DFI Account Manager's office advances cash to the appointed Division Level Agents, recording the transaction on the DD Form 1081, "Statement of Agent Officer's Account."

Objective

The overall audit objective was to provide assurance that funds on hand agreed with government records. We specifically looked at whether DoD policies and procedures for controlling cash and cash expenditures were being followed and whether the procedures were adequate given existing conditions.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For a list of the audit team members, see Appendix D.

Control of the Development Fund for Iraq

Cash on Hand

This audit report discusses control of Development Fund for Iraq (DFI) cash controlled by the Joint Area Support Group - Central (JASG-C) Comptroller, who also serves as the DFI Account Manager. The JASG-C Comptroller/DFI Account Manager has designated physical accountability over the DFI cash funds to the Disbursing Officer. The Disbursing Officer is responsible for cash on hand held in the Palace vault, disbursing the funds, and for maintaining security for the funds. The Palace vault is located in the basement of the U.S. Embassy Annex, Baghdad, Iraq.

Our review provided assurance that the funds on hand agreed with the government records. Further, the processes employed by the JASG-C Comptroller/DFI Account Manager's office for completing, controlling, and maintaining accurate records for the issuance of that cash to paying agents in the Central Region and for clearing those agents' cash account balances were acceptable.

However, we did note the following exceptions during the review:

- There is no file system to store and readily retrieve the paying agent's documents.
- The process for properly identifying the current accountable Disbursing Officer for backup access to the vaulted DFI funds did not follow applicable DOD Financial Management Regulations.
- The mechanical condition of the vault does not allow for the periodic changing of the lock combination in accordance with DoD requirements.

Cash Accountability

We conducted an unannounced cash count of the DFI funds held in the JASG-C Comptroller's vault at approximately 1500 hours on January 31, 2006. We were given access to the vault immediately and we were observed by the Disbursing Officer during the entire count. A full cash count was conducted to ascertain completeness of the funds. The cash was stored in Canvas Bags, Large Bricks, Small Bricks, Bundles, and Loose Cash. The amount of cash stored in the vault is shown in the following table.

Table: Results of Cash Count of DFI Funds on January 31, 2006 (in U.S. Currency)

	Denomination	Quantity	Amount
Currency	Hundreds	236,030 Bills @ \$100.00	\$23,603,000.00
	Fifties	29,431 Bills @ \$50.00	\$1,471,550.00
	Twenties	14,652 Bills @ \$20.00	\$293,040.00
	Tens	54,864 Bills @ \$10.00	\$548,640.00
	Fives	314,965 Bills @ \$5.00	\$1,574,825.00
	Ones	1,028,596 Bills @ \$1.00	\$1,028,596.00
Loose Coin	Coins		\$4.73
TOTAL as of January 31, 2006			\$28,519,655.73

Source: SIGIR

The actual DFI cash on hand in the vault was \$28,519,655.73, which matched the accountability maintained on the JASG-C Comptroller's specific DD Form 1081 for January 31, 2006, and also on the Excel Spreadsheet.

The JASG-C Comptroller's office follows the guidance from the DoD Financial Management Regulation (FMR) Volume 5 in regards to cash controls. A Department of Defense Form 1081, "Statement of Agent Officer's Account," is prepared to document cash withdrawals, deposits, and reconciliation of the DFI fund. Additionally, the JASG-C Comptroller's office maintains an Excel spreadsheet to track the DFI cash totals.

The JASG-C Comptroller also performs an independent, unannounced cash count on a quarterly basis as required by the FMR. Upon completion of the independent count, the cash count totals are compared to the total from Excel spreadsheet and a DD Form 1081 for that day's cash balance. If the cash count total is different from the total on the spreadsheet and the DD Form 1081, then the cash count is done again. If the balance turns out different the second time an investigation is started. However, this has not been the case, as each cash count verification has matched the spreadsheet balance.

Record Storage

The JASG-C Comptroller/DFI Account Manager has established policies and procedures for appointing the Division Level Agent. In accordance with these policies and procedures, via the appointment letter, the Division Level Agent is authorized to take custody and make disbursement of DFI Funds.

The Division Level Agents must provide the following documentation for their payment packages to the Disbursing Officer to reconcile their accounts:

- the signed contract
- detailed invoices
- Material Inspection and Receiving Report/Certificate of Completion document

The JASG-C Comptroller's Office maintains the payment package records in boxes in the Vault. The payment package record boxes are organized by the name of the paying agent. However, during our review we found different paying agent's pay packages in boxes labeled with other paying agents names. To find a specific pay package, the Disbursing Officer would search through as many boxes as required to find the package.

Management Actions. Utilizing contracted resources, the JASG-C Comptroller's Office has started scanning the payment agent's payment packages to a database. The expected completion date is May 30, 2006. The database will allow proper filing of the payment packages, and faster retrieval if a payment question is raised.

Safeguarding Funds and Related Documents

The JASG-C Comptroller/DFI Account Manager and Disbursing Officer in the Central Region did not fully comply with applicable regulations. The DoD Financial Management Regulation, states, "At the discretion of the Disbursing Officer the combination of each safe and duplicate key of each strong box may be placed in a sealed, signed, and dated envelope. The envelope shall be sealed and signed by the accountable individual in such a manner that unauthorized opening of the envelope can be detected."¹ As it currently exists, the sealed envelope with the combination and an extra key to the vault are stored in the Commander's safe. The envelope was sealed and signed by the current Commander, but not by the current Disbursing Officer. This condition does not give assurance to the current Disbursing Officer of the contents of the envelope or whether the envelope has been tampered with.

The FMR also states that, "the combination of all vaults, safes, and fund containers is changed at least once every 6 months and upon relief, transfer, separation, or discharge of the accountable individual."² In a September 7, 2005, JASG-C Memorandum for Record, are the results of a request for a change in the vault combination, as well as the problems associated with the vault that prevents compliance with this requirement. Specifically, in May 2005, the JASG-C Comptroller's office submitted a trouble desk action request to Kellogg Brown and Root (KBR) regarding a change of the vault combination. KBR's key, safe, and lock personnel observed the inner operations of the vault door, and concluded that the KBR locksmith could not guarantee the success of the action due to several factors, including:

- the age of the vault
- parts that are missing and may no longer be available
- the possibility that further disassembling of the functioning door would jeopardize its current operation

¹ DoD Federal Management Regulation Volume 5, Chapter 3, Paragraph 030302 B13.

² Ibid.

As a result of KBR's review, the recommendation was for JASG-C to contact the current vault manufacturer directly for adjustments which will require a redesign or rebuilding of the vault door.

We believe that while some assurance may be implied in that access to the vault requires both the combination and the key, the inability to change the combination increases the potential of unauthorized access to the vault from someone with prior knowledge of the combination. Also, the potential for mechanical failure of the combination lock results in the potential for unreliable security for and access to the contents of the vault.

Management Actions. During the course of the audit, the audit team informed the JASG-C Deputy Comptroller that the combination and key envelope were not current to identify the accountable Disbursing Officer, although the regulation reads that this process is at the discretion of the Disbursing Officer. In response to our notification, the envelope was updated with the current Disbursing Officer's signature.

Conclusion

We conducted an unannounced cash count on January 31, 2006, and as a result provided assurance that the \$28.5 million funds on hand agreed with government records. The JASG-C Comptroller/DFI Account Manager, was accountable for DFI cash assets on hand and complied with the DoD requirements for safeguarding cash, with some exceptions. We found that the processes employed by the JASG-C Comptroller/DFI Account Manager's office were acceptable for completing, controlling, and maintaining accurate records for: (1) cash on hand (Palace Vault), (2) issuance of cash to paying agents in the Central Region, and (3) clearing paying agents' cash account balances.

However, we did note the following exceptions during the review, and that management had initiated corrective actions on the first two:

- There is no file system to store and readily retrieve the paying agent's documents.
- The process for properly identifying the current accountable Disbursing Officer for backup access to the vaulted DFI funds did not follow applicable DoD Financial Management Regulations.
- The mechanical condition of the vault does not allow for the periodic changing of the lock combination in accordance with DoD requirements.

Recommendations, Management Comments and Audit Response

We recommend that the Commander, Joint Area Support Group-Central, require these actions of the JASG-C Comptroller/DFI Account Manager:

- Develop a file system to store and more readily retrieve specific payment packages.
- Ensure that current signatures are affixed to the sealed enveloped containing the safe combination and duplicate key whenever a new Disbursing Officer takes custody of the cash assets.
- Develop a contingency plan for secure and reliable access to the vault and its contents to lower the risk of unauthorized access or in the event of mechanical failure of the combination lock.

Management Comments and Audit Response. The Commander, JASG-C, concurred with all recommendations. Actions have been taken by the JASG-C Comptroller/DFI Account Manager to implement the recommendations relating to the signatures and vault. Action on the recommendation relating to the file system is currently underway with an estimated completion date of May 30, 2006. The comments received are fully responsive.

Appendix A. Scope and Methodology

We conducted a DFI cash count of the JASG-C Comptroller's vault at approximately 1500 hours on January 31, 2006 (Project No. 6007). The auditors gave no prior notification of the cash count and were given access to the vault immediately. We verified by actual count the cash in the amount of \$28,519,655.73, which matches the accountability maintained on the JASG-C Comptroller's specific DD Form 1081 for January 31, 2006, and also on the Excel Spreadsheet.

We reviewed the DoD Federal Management Regulation Volume 5 as the criteria to determine if the JASG-C Comptroller's Office complied with applicable regulations.

We reviewed the Statement of Agent Officer's Account, DD Form 1081 to determine the adequacy of the JASG-C Comptroller/DFI Account Manager/Comptroller funds accountability.

We reviewed the spreadsheets of reconciliation between the Division Level Agents and the JASG-C Comptroller. We reviewed receipt payment packages to determine if the amounts equaled the amounts on the Excel spreadsheet totals.

We reviewed the contract that establishes the special action team to provide full and accurate accounting of the management of DFI funds. The contract requires the special action team to scan the payment packages for the database.

We performed the audit work at the JASG-C Comptroller's Office and the vault, located in the U.S. Embassy Annex, Baghdad, Iraq.

We conducted this audit from January 2006 through April 2006, with the actual cash count performed on January 31, 2006, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. We reviewed the following reports:

The Special Inspector General for Iraq Reconstruction report, "Control of Cash Provided to South-Central Iraq," (SIGIR 05-006, April 30, 2005). Reports issued by the Office of the Special Inspector General for Iraq Reconstruction can be accessed on its website <http://www.sigir.mil>.

Air Force Audit Agency report, "Nonappropriated Fund Cash Controls," (F2003-0003-FB4000, dated 30 December 2002). AFAA Reports can be accessed on its website <https://www.afaaf.hq.af.mil>

Appendix B. Acronyms

CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
JASG-C	Joint Area Support Group-Central (Provisional)

Appendix C. Report Distribution

Department of State

Secretary of State

 Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

 Director, Iraq Reconstruction Management Office

 Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

 Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

 Deputy Chief Financial Officer

 Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

 Principal Deputy to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology

 Deputy Assistant Secretary of the Army (Policy and Procurement)

 Director, Project and Contracting Office

 Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

 Chief of Engineers and Commander, U.S. Army Corps of Engineers

 Commanding General, Gulf Region Division

 Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

 Commanding General, Multi-National Security Transition Command-Iraq

 Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

 Subcommittee on International Operations and Terrorism

 Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

 Subcommittee on Federal Financial Management, Government Information and International Security

 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations, Export Financing and Related Programs

 Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

 Subcommittee on Management, Finance and Accountability

 Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

 Subcommittee on Middle East and Central Asia

Appendix D. Audit Team Members

This report was prepared and the audit was conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

W. Dan Haigler, Jr.

Arlene Hunt

Ronald Rembold

Management Comments

Commander, Joint Area Support Group-Central

Multi-National Force Iraq



Joint Area Support Group Central (Provisional) Multi-National Force Iraq US Embassy Baghdad

JASG-C

31 March 2006

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SUBJECT: Response to Draft Audit Report 06-008, Development Fund for Iraq Cash Accountability Review: Joint Area Support Group-Central, dated 28 March 2006

PURPOSE: Provide JASG-C Comments SIGIR Draft Audit Report 06-008.

1. Comments are provided as requested for the draft recommendations identified on page six of the report.

a. Recommendation. Develop a file system to store and more readily retrieve specific payment packages.

Management Comment. Concur. As noted in the draft report, the Special Action Team contracted to comply with recommendations outlined in SIGIR report 05-006 (Control of Cash Provided to South-Central Iraq) is scanning all paying agent documents into a database. This will allow prompt access to any paying agent payment information upon request.

b. Recommendation. Ensure that current signatures are affixed to the sealed envelope containing the safe combination and duplicate key whenever a new Disbursing Officer takes custody of the cash assets.

Management Comment. Concur. As noted in the draft report, this action has already been accomplished for the current Disbursing Officer.

c. Recommendation. Develop a contingency plan for secure and reliable access to the vault and its contents to lower the risk of unauthorized access or in the event of mechanical failure of the combination lock.

Management Comment. Concur. The Comptroller noted the requirement for the vault combination change immediately upon the assumption of his duties in July 2005. A locksmith was contacted, and he provided the assessment that is cited in the draft report. If the vault cannot be opened, the door will have to be drilled and the lock removed.

Armed guards will be posted to prevent unauthorized access to the vault and daily cash counts will be performed. These procedures will be maintained until another vault with sufficient storage space can be accessed. Another vault does exist within the International Zone, and it is operated by Detachment D, 230th Finance Battalion.

In the event that the vault cannot be locked, armed guards will be posted to prevent unauthorized access and daily cash counts will be performed. These procedures will be maintained until another vault with sufficient storage space can be accessed.

2. The POC for this action is the JASG-C Comptroller, Lt Col Vincent Miller at DSN 318-239-8625.



KENNETH R. DAHL
COL, FA, USA
Commanding